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PENSION NEWS



Teachers' Pension Plan Board
Conseil du régime de retraite des enseignantes et des enseignants

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OTF and Ontario government agree to share gains

In April 1998, the Ontario Teachers' Federation (OTF) and the Ontario government, as joint sponsors of the pension plan, reached an agreement to share the pension surplus. As joint partners in the plan, the two parties are responsible for sharing any gains and making up any losses. Only the partners, not the pension board, can change the benefits in the plan.

The agreement

The partners negotiated an agreement to share any current and future gains until at least the year 2002.

- 1 They agreed to use the first \$2.2 billion to pay for pension improvements: an 85-factor window for current teachers and an improvement to the CPP reduction at age 65 which allows all pensioners to keep more of their teachers' pension. The reduction at age 65 was changed to 0.6% from 0.68%.
- 2 The next approximately \$8.4 billion will be used to eliminate the government's contributions to the unfunded liability. The next actuarial valuation in January 1999 is expected to show enough gain to eliminate the need for future payments.
- 3 The OTF will be able to use all of the remaining gains until 2002 (until total benefit improvements equal \$8.4 billion) to further improve plan benefits or to reduce the contribution rate.

A fair deal

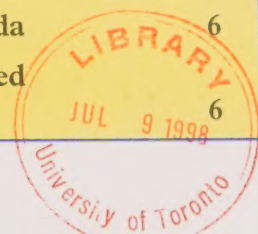
"By sharing the gains, the OTF and the Ontario government have made a balanced deal, from a pension plan perspective," says Claude Lamoureux, CEO of the pension plan. "Current teachers are able to retire early, pensioners get an increased pension at age 65 and the Ontario government can use its share of the gains to eliminate its future payments to the unfunded liability."

The present value of the future payments the government was scheduled to make over the next 32 years is about \$8.4 billion. The government agreed to pay off the unfunded liability in 1990 when the pension board was created. At that time, an actuarial valuation of the plan estimated the cost of future pensions at \$41.1 billion compared to the actuarial assets in the plan of \$33.3 billion, leaving a gap of \$7.8 billion. This was called the initial unfunded liability.

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Share gains...

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The actuarial valuation made conservative long-term assumptions about inflation, salary growth and rate of return on investments (see page 7). However, the actual experience over the past eight years has been quite different: inflation and salary growth were very low and the rate of return on investments was much higher than anticipated. The combined effect of this was a radical change in the funding position of the plan.

Pensions are secure

Instead of a 20% deficiency, by 1998 the plan had achieved a rapidly growing surplus. "The partners had to act because Revenue Canada has limits on how large a surplus can be and it was approaching a level of concern for us," says Lamoureux.

Currently, there is enough money in the fund to fully pay all future pensions for current teachers.

Let's look at the contribution rate

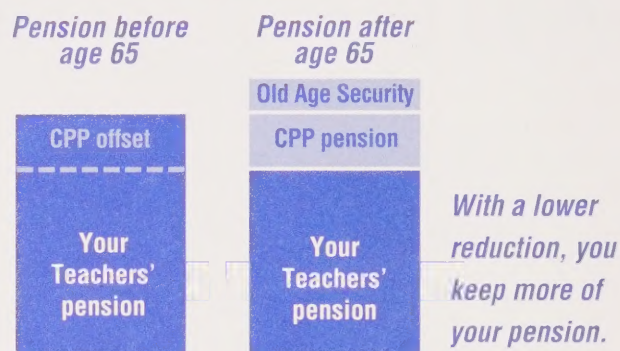
Since 1990, teachers have been contributing 8.9% of salary to the pension plan, integrated with CPP. This rate is significantly higher than in previous years, as shown in this chart.

<i>Years</i>	<i>Contribution rate</i>
1949 to 1975	6%
1975 to 1984	7%
1984 to 1989	7.9%
1990 to now	8.9%

More money at age 65

CPP reduction improved

With the recent plan changes, pensioners will keep more of their teachers' pension at age 65. The reduction factor was lowered to 0.6% from 0.68%, effective January 1999.



The pension improvement if you are over 65 will vary depending on when you retired. The amount your teachers' pension is reduced for CPP is greater for someone retiring now because they contributed to CPP for a longer time than someone who retired 20 or 30 years ago. Since the pension improvement is based on a percentage, it is also greater for those who have retired recently.

Here are some examples of your maximum pension increase next January if you are 65 or older. It is in addition to the increase for inflation all pensioners receive every January.

<i>Started pension</i>	<i>Maximum pension increase (per year)</i>
1998	\$ 940
1993	755
1988	615
1983	380
1978	275
1973	120

Merchant Banking: the focus is on above average returns



You may not have heard of the pension plan's Merchant Banking Group, but you're probably familiar with their work.

The deals they have put together are among the Teachers' pension plan's most conspicuous investments. These include:

- ATS (Automation Tooling Systems) Inc.
- Sun Media Corp.
- Maple Leaf Foods
- Vincor (makers of popular Ontario wines including Inniskillin and Jackson Triggs).
- Maple Leaf Gardens Ltd.

Although the \$1.7 billion Merchant Banking portfolio is one of the largest of its kind in Canada, it's our smallest asset class—representing about 3% of the plan's \$54.5 billion net assets.

How Merchant Banking fits into Teachers' investment strategy

We invest in equity markets in primarily three ways: Index fund stocks—replicate the market, for example if the stock is included in the Toronto Stock Exchange (TSE) 300 Index, we buy it; Actively managed stocks—select stocks we believe are undervalued; and Merchant Banking—seek business partners who are effective managers.

Our Merchant Banking team focuses on corporate, financial and strategic skills to invest in privately owned and publicly traded companies where we believe we can earn above average returns.

We also invest on a pooled basis with other merchant banks, brokerage houses, and managed funds in Canada, the U.S., Europe, Asia and Latin America.

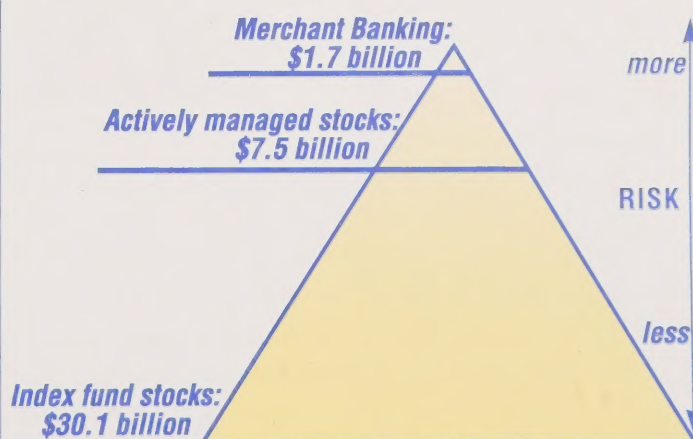
Finding extra value

Merchant Banking investments tend to be more illiquid (its assets are not easily sold) and come at a higher risk than publicly traded companies, but the rewards tend to be greater. Last year the Merchant Banking Group achieved stellar returns primarily due to strong equity markets and a good underwriting process that allowed the fund to realize investments made a few years ago. Sustaining this kind of return over the long-term will be difficult. The benchmark for Merchant Banking is to achieve returns at least 2% higher than the TSE 300.

Venture capital

As part of Merchant Banking Group, we recently launched a \$100-million venture capital portfolio to be invested over three years in companies in the early stages of development. The venture capital portfolio will provide us with more exposure to companies in the high-growth technology sector—a sector known for creating jobs.

EQUITY INVESTMENTS



Continued on page 4

MLG buys Raptors, new arena

Teachers' pension plan continues to own 49% of Maple Leaf Gardens Limited (MLG Ltd.) which purchased the Raptors, Air Canada Centre and Union Station (to be finalized).

The deal was announced in February.

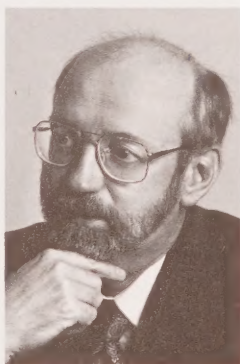
MLG deal at-a-glance

MLG Ltd. plans to develop a sports, entertainment, retail, transportation and technology destination out of the Air Canada Centre and Union Station;

The historical integrity of Union Station will be preserved. The Toronto Maple Leafs and the Toronto Raptors will share the facility at the Air Canada Centre;

"One facility makes good business sense because the teams can share overhead costs, facility marketing costs and revenues from concerts and other events," says Bob Bertram, Sr. Vice-President, Investments;

The cost was not disclosed because MLG is a private company. ■



Bob Bertram

Reminder for Snowbirds

Last year, the U.S. Internal Revenue Service closed its Ottawa office.

Snowbirds who file a *Closer Connection Exception Statement for Aliens*, form 8840, must contact the IRS in the United States. The number for its Buffalo office is 1-800-829-1040.

Merchant Banking: the focus is on above-average returns

Continued from page 3

"As part of our learning experience, we are partnering with Canada's premier venture capital companies to leverage their resources and expertise," says Michael Lay, Vice-President, Merchant Banking. "We are also actively involved with Newbridge Networks Corp. in financing three affiliate companies in the telecommunications sector."



Michael Lay

Merchant Banking at-a-glance

Investment: \$1.7 billion

1997 Rate

of Return: 52.9% compared to a benchmark of 17%

Four-year average

rate of return: 31%

Contains: Privately owned and publicly traded companies, also invests on a partnership basis with merchant banks and others

Managed: Internally by a staff of 10, headed by Michael Lay, Vice-President ■

QA You Asked Us

Q. *Why is the government allowed to use some of the surplus to pay off its unfunded liability?*

J.S., North York

A. ■ The Ontario government is an equal partner in the pension plan with the Ontario Teachers' Federation. By being equal, we mean:

- makes matching contributions
- is equally responsible for gains (surpluses) and losses

In this case, the partners have agreed to share the gains. The plan improvements cost approximately \$2.2 billion. The Ontario government will eliminate \$8.4 billion in special payments towards the unfunded liability, and the OTF will use at least \$6.2 billion for additional benefit improvements for teachers and pensioners, bringing the total to \$8.4 billion.

This agreement is in no way a threat to your pension. The Teachers' pension fund is secure, even without a surplus.

Q. *Has the Teachers' pension plan prepared for the year 2000 computer problem?*

P.C., South River

A. ■ The information systems used by the Teachers' pension plan will be ready for the next century. We have, for instance, been providing teachers with pension estimates for beyond the year 2000 for some time.

We are dependent on several external information systems for services such as data collection from school boards and investment market data.

We are working with our suppliers of these and other services to ensure the systems will work well after the year 2000. We are doing final tests on our systems this year to ensure we're ready.

The so-called millennium bug affects many older computer programs that use only two digits rather than four to denote dates. This leaves the computer program confused by the year 2000, which it reads as "00." Without correction, affected systems will misinterpret the "00" figure as 1900 or a random date, causing them to malfunction.

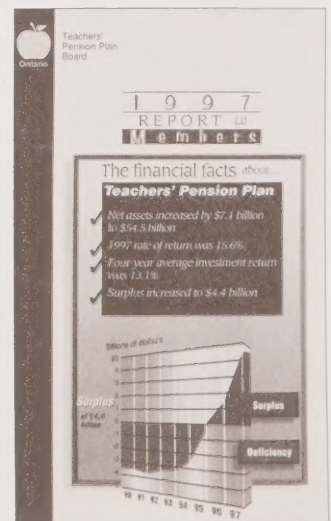
Q. *How did the drop in the Asian markets hurt the pension plan?*

J.N., Pickering

A. ■ The Teachers' pension plan did not catch the financial equivalent of the Asian flu that began last fall with the currency crisis and collapse of the region's stock markets. We invest less than 1% of the plan's assets in emerging markets and had very little invested in countries suffering most from the recent drop in market value, namely Indonesia, Malaysia and South Korea. ■

Report to members

Enclosed with this issue is your copy of the *1997 Report to Members* highlighting the fund's performance for the past year. If you want a copy of our full report with audited financial statements, contact our office. We have sent a copy of the full report to all STO district offices along with a copy of a video of our annual meeting held April 3, 1998.



Retired teacher leads effort to build a school in the slums of Cartagena



Former Waterloo County school teacher helped to create a miracle by raising \$30,000 to build Escuela Kew Beach.

In 1991, teacher Ann Watson, now retired, and her husband Rev. David Watson took a tour in Cartagena, Columbia that would change their lives, and that of the tour guide. The guide, local school principal Rosie Rivas, told the Watsons about her poorly-stocked classrooms and her dream to build a school in the slums of Cartagena.

That dream came true in January, thanks in large part to the tireless work of Ann.

In less than three years \$30,000 was raised to build the first phase of the Escuela Kew Beach. Ann credits the fundraising campaigns at Rev. Watson's church, Kew Beach United, and her chapter of the women educator's society, Delta Kappa Gamma Society International.

Ann, who spent most of her 36-year teaching career in Waterloo County, made seven trips to Cartagena, sometimes alone, to help pull the project together. She returned again in January with 32 other Canadians for the school opening.

"When I first saw the school, I couldn't believe it," says Ann. "I had been working on this for so long, and there it was before my eyes."

The miracle continues. Ann is now raising funds for salaries, supplies and the school's expansion. 🌞



School principal and part-time tour guide Rosie Rivas (centre) pictured with Ann and David Watson.

Photo courtesy of Beach Metro Community News

Tell us about interesting or exciting things you've done since you retired. From volunteer work, to travel, to a new career, if you have an interesting retirement story that you'd like to share with us, please write it down and send it to us at the address on the back of this newsletter.

What is... an actuarial gain?

An actuarial gain (or loss) is the difference between the estimated performance of the fund and what actually occurs. Every three years a funding valuation is done by an independent actuary. At the end of the three years, the estimated performance is compared to actual outcome. If the outcome is better than the rate of return and other factors predicted by the assumptions, there is an actuarial gain. Similarly, if the outcome is worse than expected in the assumptions, the plan experiences an actuarial loss.

Funding valuation assumptions

(at January 1)	1996	1993	1990
Rates of return on investment	8.0%	8.0%	8.5%
Salary escalation rates	5.0	5.0*	5.75
Inflation rates	4.0	4.0*	4.5

*2% for 1993 and 1994

The next valuation will be as at January 1, 1998.

The partners decide

Actuarial gains or losses are the responsibility of the partners—OTF and the Ontario government. Gains can be used to establish contingency reserves, improve benefits or reduce contributions. Since 1992 the application of the gains must be agreed to by the partners. Prior to that time, the government could use its portion of the gains to offset its special payments to the unfunded liability. 🍎

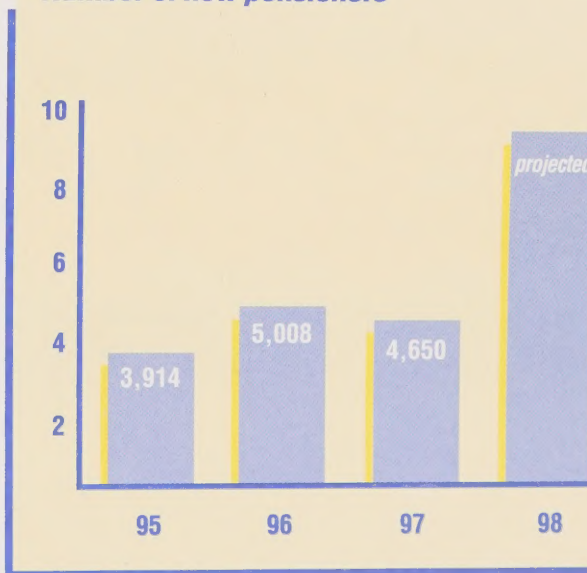
Pensioners increasing rapidly

More teachers than usual are retiring this June after the announcement of the 85-factor early retirement window.

In 1997, 4,650 teachers started on pension, expanding the pensioner population to 57,000.

This year, we expect between 8,000 and 10,000 teachers to retire, bringing the number of pensioners to over 65,000.

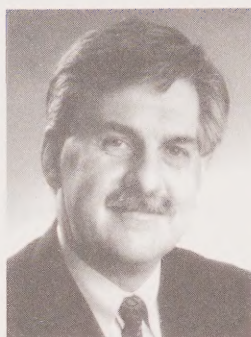
Number of new pensioners



There were 155,000 active teachers in 1997, including full time, part time and supply teachers. It is unknown at this time how many retiring teachers will be replaced. 🍎

New directors appointed

Mr. Gary Porter is a founding partner of the public accounting firm, Porter Hétu International and past president of the Certified General Accountants Association of Ontario. He has served on the Investment Committee since 1990.



Porter

Mr. Roger Wilson is a partner with the law firm Fasken Campbell Godfrey in Toronto and a director of several companies including CT Financial Services Inc. and its Canada Trust subsidiaries, and MDS Inc.



Wilson

Stepping down from the board are Gail Cook-Bennett after eight years, and Martin Hicks after seven years. ☀

PENSION NEWS

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Web site: www.otpp.com

This newsletter does not create any right to benefits. Your entitlements and those of your survivors are and will be governed by the language of the pension plan text. The information contained in this newsletter is not intended to be relied upon in relation to any particular circumstance.

Ce bulletin est disponible également en français.

Reminders...



Moving?

Don't forget to tell us if you move. You can write to us or contact us at the address below.

If you're planning a move early in the year, please let us know your new address no later than mid-January. This will ensure your T4A slip and inflation adjustment statement are sent to your new address.

Changing banks?

If you're planning to change banks, inform us at least four weeks in advance to avoid any delays in the receipt of your pension. Please include a void cheque when writing to us.



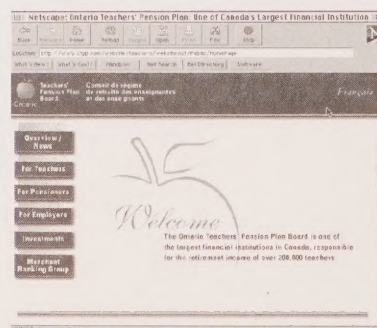
Same address



If more than one copy of *Pension News* is being sent to your address (i.e. your spouse is also a retired teacher or you're an acting power of attorney for a retired teacher), you can choose to receive a single copy by contacting us.

You will continue to receive separate copies of personalized information (i.e. T4As, inflation adjustment statement). ☀

Were you one of the 30,000 people who visited our web site this Spring?



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